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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-71998; File No. SR-FINRA-2014-015]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Series 26 Examination Program

April 23, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 15, 2014, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as “constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule” under Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

FINRA is filing revisions to the content outline and selection specifications for the Investment Company and Variable Contracts Products Principal (Series 26) examination

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

program.<sup>5</sup> The proposed revisions update the material to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by an Investment Company and Variable Contracts Products Principal. In addition, FINRA is proposing to make changes to the format of the content outline. FINRA is not proposing any textual changes to the By-Laws, Schedules to the By-Laws or Rules of FINRA.

The revised content outline is attached.<sup>6</sup> The Series 26 selection specifications have been submitted to the Commission under separate cover with a request for confidential treatment pursuant to SEA Rule 24b-2.<sup>7</sup>

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV

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<sup>5</sup> FINRA also is proposing corresponding revisions to the Series 26 question bank. Based on instruction from SEC staff, FINRA is submitting this filing for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(1) thereunder, and is not filing the question bank for review. See Letter to Alden S. Adkins, Senior Vice President and General Counsel, NASD Regulation, from Belinda Blaine, Associate Director, Division of Market Regulation, SEC, dated July 24, 2000. The question bank is available for SEC review.

<sup>6</sup> The Commission notes that the revised content outline is attached to the filing, not to this Notice.

<sup>7</sup> 17 CFR 240.24b-2.

below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Section 15A(g)(3) of the Act<sup>8</sup> authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. In accordance with that provision, FINRA has developed examinations that are designed to establish that persons associated with FINRA members have attained specified levels of competence and knowledge, consistent with applicable registration requirements under FINRA rules. FINRA periodically reviews the content of the examinations to determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

Pursuant to NASD Rule 1022(d)<sup>9</sup> (Limited Principal – Investment Company and Variable Contracts Products), if a principal’s activities are limited solely to redeemable securities of companies registered under the Investment Company Act of 1940 (“Investment Company Act”), securities of closed-end companies registered under the Investment Company Act during the period of original distribution, and variable contracts and insurance premium funding programs and other contracts issued by an insurance company (except contracts that are exempt

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<sup>8</sup> 15 U.S.C. 78o-3(g)(3).

<sup>9</sup> The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

securities pursuant to Section 3(a)(8) of the Securities Act of 1933), and he is registered as either a General Securities Representative or a Limited Representative – Investment Company and Variable Contracts Products, the principal may register and qualify as an Investment Company and Variable Contracts Products Principal.<sup>10</sup> The Series 26 examination qualifies an individual to function as an Investment Company and Variable Contracts Products Principal.

In consultation with a committee of industry representatives, FINRA recently undertook a review of the Series 26 examination program. As a result of this review, FINRA is proposing to make revisions to the content outline to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by an Investment Company and Variable Contracts Products Principal. FINRA also is proposing to make changes to the format of the content outline.

#### Current Outline

The current content outline is divided into five sections. The following are the five sections and the number of questions associated with each of the sections, denoted Section 1 through Section 5:

1. Hiring and Qualifications: Determine Good Character, Business Repute, Qualifications and Experience, 11 questions;
2. Training of Representatives: Assure Representatives Have Necessary Knowledge to Perform Their Duties, 19 questions;
3. Supervision: Develop, Maintain and Adhere to Required Supervisory Structure, 24 questions;

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<sup>10</sup> See also Incorporated NYSE Rule 345.15(3) and Incorporated NYSE Rule Interpretation 345.15/02.

4. Sales Practices: Assure Sales Are Made in Compliance with Firm and Securities Rules and Regulations, 32 questions; and
5. Business Processing and Recordkeeping Rules: Assure Transactions Are Executed in Accordance with Firm and Regulatory Requirements 24 questions.

Each section also includes the applicable laws, rules and regulations associated with that section. The current outline also includes a preface (addressing, among other things, the purpose, administration and scoring of the examination), sample questions and reference materials.

#### Proposed Revisions

FINRA is proposing to divide the content outline into three major job functions that are performed by an Investment Company and Variable Contracts Products Principal. The following are the three major job functions, denoted Function 1 through Function 3, with the associated number of questions:

Function 1: Personnel Management Activities and Registration of the Broker-Dealer, 16 questions;

Function 2: Supervises Associated Persons and Oversees Sales Practices, 49 questions; and

Function 3: Oversees Compliance and Business Processes of the Broker-Dealer and its Offices, 45 questions.

FINRA is also proposing to adjust the number of questions assigned to each major job function to ensure that the overall examination better reflects the key tasks performed by an Investment Company and Variable Contracts Products Principal. The questions on the revised

Series 26 examination will place greater emphasis on key tasks such as supervision of registered persons, sales practices and compliance.

Each function also includes specific tasks describing activities associated with performing that function. There are two tasks (1.1 – 1.2) associated with Function 1; six tasks (2.1 – 2.6) associated with Function 2; and six tasks (3.1 – 3.6) associated with Function 3.<sup>11</sup> By way of example, one such task (Task 2.1) is monitors, supervises and documents the sales activities of associated persons to achieve compliance with securities industry rules and regulations and firm policies and provides feedback regarding product knowledge and performance.<sup>12</sup> Further, the outline lists the knowledge required to perform each function and associated tasks (e.g., standards of conduct and prohibited activities).<sup>13</sup> In addition, where applicable, the outline lists the laws, rules and regulations a candidate is expected to know to perform each function and associated tasks. These include the applicable FINRA Rules (e.g., FINRA Rule 2090), NASD Rules (e.g., NASD Rule 2510) and SEC rules (e.g., SEA Rule 15c1-7).<sup>14</sup> FINRA conducted a job analysis study of Investment Company and Variable Contracts Products Principals, which included the use of a survey, in developing each function and associated tasks and updating the required knowledge set forth in the revised outline. The functions and associated tasks, which appear in the revised outline for the first time, reflect the day-to-day activities of an Investment Company and Variable Contracts Products Principal.

As noted above, FINRA also is proposing to revise the content outline to reflect changes to the laws, rules and regulations covered by the examination. Among other revisions, FINRA is

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<sup>11</sup> See Exhibit 3a, Outline Pages 6-18. The Commission notes that Exhibit 3a is an exhibit to the filing, not to this Notice.

<sup>12</sup> See Exhibit 3a, Outline Page 9.

<sup>13</sup> See Exhibit 3a, Outline Page 9.

<sup>14</sup> See Exhibit 3a, Outline Pages [sic] 11.

proposing to revise the content outline to reflect the adoption of rules in the consolidated FINRA rulebook (e.g., NASD Rule 2310 (Recommendations to Customers (Suitability)), NASD Rule 2212 (Telemarketing) and NASD Rule 3110 (Books and Records) were adopted as FINRA Rule 2111 (Suitability), FINRA Rule 3230 (Telemarketing) and FINRA Rule 4510 Series (Books and Records Requirements), respectively).<sup>15</sup>

FINRA is proposing similar changes to the Series 26 selection specifications and question bank.

Finally, FINRA is proposing to make changes to the format of the content outline, including the preface, sample questions and reference materials. Among other changes, FINRA is proposing to: (1) Add a table of contents;<sup>16</sup> (2) provide more details regarding the purpose of the examination;<sup>17</sup> (3) provide more details on the application procedures;<sup>18</sup> (4) provide more details on the development and maintenance of the content outline and examination;<sup>19</sup> (5) explain that the passing scores are established by FINRA staff, in consultation with a committee of industry representatives, using a standard setting procedure and that the scores are an absolute standard independent of the performance of candidates taking the examination;<sup>20</sup> and (6) note that each candidate will receive a score report at the end of the test session, which will indicate a

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<sup>15</sup> See Rule Conversion Chart, available at <http://www.finra.org/Industry/Regulation/FINRARules/p085560>.

<sup>16</sup> See Exhibit 3a, Outline Page 2.

<sup>17</sup> See Exhibit 3a, Outline Page 3.

<sup>18</sup> See Exhibit 3a, Outline Page 3.

<sup>19</sup> See Exhibit 3a, Outline Page 4.

<sup>20</sup> See Exhibit 3a, Outline Page 5.

pass or fail status and include a score profile listing the candidate's performance on each major content area covered on the examination.<sup>21</sup>

The number of questions on the Series 26 examination will remain at 110 multiple-choice questions,<sup>22</sup> and candidates will continue to have 165 minutes to complete the examination. Currently, a score of 70 percent is required to pass the examination. The passing score will remain the same.

#### Availability of Content Outlines

The current Series 26 content outline is available on FINRA's website, at [www.finra.org/brokerqualifications/exams](http://www.finra.org/brokerqualifications/exams). The revised Series 26 content outline will replace the current content outline on FINRA's website.

FINRA is filing the proposed rule change for immediate effectiveness. FINRA proposes to implement the revised Series 26 examination program on June 16, 2014. FINRA will announce the proposed rule change and the implementation date in a Regulatory Notice.

## 2. Statutory Basis

FINRA believes that the proposed revisions to the Series 26 examination program are consistent with the provisions of Section 15A(b)(6) of the Act,<sup>23</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors

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<sup>21</sup> See Exhibit 3a, Outline Page 5.

<sup>22</sup> Consistent with FINRA's practice of including "pre-test" questions on certain qualification examinations, which is designed to ensure that new examination questions meet acceptable testing standards prior to use for scoring purposes, the examination includes ten additional, unidentified pre-test questions that do not contribute towards the candidate's score. Therefore, the examination actually consists of 120 questions, 110 of which are scored. The ten pre-test questions are randomly distributed throughout the examination.

<sup>23</sup> 15 U.S.C. 78o-3(b)(6).



and the public interest, and Section 15A(g)(3) of the Act,<sup>24</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. FINRA believes that the proposed revisions will further these purposes by updating the examination program to reflect changes to the laws, rules and regulations covered by the examination and to incorporate the functions and associated tasks currently performed by an Investment Company and Variable Contracts Products Principal.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The updated examination aligns with the functions and associated tasks currently performed by an Investment Company and Variable Contracts Products Principal and tests knowledge of the most current laws, rules, regulations and skills relevant to those functions and associated tasks. As such, the proposed revisions would make the examination more efficient and effective.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>25</sup> and paragraph (f)(1) of Rule 19b-4 thereunder.<sup>26</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public

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<sup>24</sup> 15 U.S.C. 78o-3(g)(3).

<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b-4(f)(1).

interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2014-015 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2014-015. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be

available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2014-015 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

Kevin M. O'Neill,  
Deputy Secretary.

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<sup>27</sup> 17 CFR 200.30-3(a)(12).